

World Beef Trade Overview

Beef Exports Rise 6.5 percent in 2005; U.S. Market Share Forecast at 4 percent

Following the release of USDA official statistics on October 21, 2004, a framework agreement to resume trade was reached between the United States and Japan on October 23, 2004. While shipments could resume by early 2005, the estimates do not reflect the impact of the framework agreement. Necessary regulatory procedures have not been completed in either country and the level of expected trade is dependent on the timing and outcome of this work. USDA will update the estimates as more information becomes available. The following discussion reflects the situation prior to the framework agreement.

In 2005, total beef exports from leading suppliers are forecast to rebound, increasing to nearly 6.6 million tons following 2004 projected declines because of import bans due to bovine spongiform encephalopathy (BSE). Export growth will come from South America as export markets open in response to disease eradication efforts and improved price competitiveness due to favorable exchange rates. Exports to the European Union (EU), a traditional market for South American beef, will grow as EU producers limit production in order to adjust to Common Agriculture Policy (CAP) reform. In addition, smaller markets will have to import from non-traditional suppliers or import less as Australia and New Zealand shift a greater proportion of their exports to Japan and Korea. U.S. exports are forecast to increase by 70,000 tons in 2005, reflecting a continuing recovery of exports to those countries that have reopened their markets to U.S. beef. However as restrictions and bans on U.S. beef in Japan and Korea continue, U.S. exports will be less than one-fourth of 2003 levels and the United States will have dropped from the third to the ninth largest exporter of beef in the world.

Total beef exports for leading suppliers are projected at 6.2 million tons for 2004, revised upward 5 percent from the March 2004 estimate, but lower than 2003 due to BSE. For major suppliers in South America, the 2004 estimate is revised upward to reflect increases following the relaxation of some import bans due to Foot and Mouth Disease (FMD). The 2004 estimate for U.S. beef exports is revised upward to reflect the reopening of Mexico and Canada as well as secondary markets.

Imports in 2005 are forecast to be 4.8 million tons, or 4 percent higher than 2004. Aggregate consumption in major markets will remain relatively unchanged from 2004 to 2005 due to higher prices and tighter supplies. Production will decrease marginally in the European Union due to CAP reform and in Australia, and New Zealand as producers rebuild cattle herds following high slaughter rates due to periods of drought and high beef prices. In the United States, production is forecast to remain relatively unchanged due to low cattle inventories and imports are forecast to increase 2 percent. The United States will remain the largest beef importer in 2004 and 2005. Total beef imports for major markets are forecast at 4.6 million tons for 2004, revised upward 3 percent from the March 2004 estimate. Japan is importing more from Australia and New Zealand to make up for reduced imports due to bans on North American beef. The European Union is forecast to import more from South America.

Key Exporters

- **United States:** U.S. beef exports will be limited in 2005 due to bans currently in place by major importing countries. Mexico has become the largest importer of U.S. beef and the trend is expected to continue, as import bans by other countries are assumed to remain in 2005. U.S. beef exports are forecast to be 272,000 tons in 2005, representing a 35-percent increase over 2004, but remaining significantly below historical levels. In 2004, exports to reopened markets are not expected to reach pre-BSE levels, in particular to Canada, where cattle inventory and beef supplies are at record-high levels. U.S. production will be stable as producers take advantage of improved weather conditions and better grain prices to shift towards herd rebuilding. The United States is the primary high-quality beef supplier to the world, but as long as bans on U.S. beef continue, Australia will have an opportunity to improve its competitive position in supplying beef to major markets such as Japan and Korea.
- **Brazil:** With a forecast 1.6 million tons in beef exports in 2005, Brazil is expected to remain the world's largest beef supplier despite the recent discovery of FMD in the pre-Amazon region of mid-northern Brazil. The majority of beef production for export originates outside of the pre-Amazon in southern, southeastern, and central-western Brazil, which benefits from better access to infrastructure, abundant feed supplies, and inexpensive land unencumbered by environmental regulations. Brazilian beef exports will continue increasing due to expansion and improvement of productivity, favorable exchange rates, and aggressive marketing efforts. In 2005, beef production is expected to increase by 5 percent due to improved economic growth generating increased domestic demand, continued expansion of beef exports, and a record beef cattle herd. The 2004 beef export forecast was revised upward to nearly 1.5 million tons to reflect expected increases in exports to the European Union, Egypt, and Russia because of rising prices in those markets and favorable exchange rates.
- **Australia:** Australian beef exports are forecast to remain at 1.3 million tons in 2005. A marginal decrease in beef production is anticipated as Australia balances herd rebuilding with current high beef prices. Pasture conditions have improved this year following what was the worst drought in a century. However, prices are relatively high in Japan, Korea, and the United States, which are pulling Australia's exports away from smaller markets. As of August 2004, Australia's year-to-date beef exports to Japan were up 42 percent and beef exports to Korea were up 32 percent. Producers are expected to continue taking advantage of higher prices due to lower competition in other markets, which will lead to increased exports to these markets and reduced domestic consumption in Australia.
- **India:** India's beef and carabeef (buffalo meat) exports are forecast at 625,000 tons in 2005, representing a 16-percent increase over 2004, due to increased production, improved quality, and greater demand in export markets. India's marketing efforts are increasing exports in both traditional and new markets and beef production is increasing to meet this demand through investments in meat processing capacity. Meat quality is improving due to better animal health management, greater efficiency in animal production, and investments in feedlots.
- **New Zealand:** New Zealand beef exports are forecast at 605,000 tons in 2005, relatively unchanged over 2004. Assuming a return to normal pasture conditions, higher cow and heifer

retention for herd rebuilding in 2005 is expected to reduce slaughter of female animals and lower beef production nearly 1 percent in 2005. The 2004 beef export estimate is revised upward from the March 2004 estimate to reflect increased exports to Korea and Japan as exporters take advantage of bans on U.S. beef. This is evidenced by exports to Japan increasing 92 percent and Korea increasing 99 percent January through August 2004 compared to the same period in 2003.

- **Argentina:** Argentina's 2005 beef exports are anticipated to achieve a 25-year high due to strong world demand, the opening of new markets due to improved sanitary status, and favorable exchange rates. Cattle liquidation resulting from a severe drought in 2003 led to increased beef production in 2004, which boosted available supplies. Beef production capacity has increased in the last few years and will likely continue given recent investments by meat packers. As the Argentine government continues to aggressively negotiate the opening of markets now that the FMD situation has improved following large-scale vaccinations, there will be expanded opportunities for Argentine beef exports. The 2004 beef export estimate is revised upward from the March 2004 estimate because of expected increases in exports to the United States, the European Union, Russia, and Venezuela.
- **Canada:** In 2005, beef production will increase whereas consumption will not; hence exports are expected to rise 6 percent to 570,000 tons, compared to 2004, but 7 percent less than pre-BSE exports in 2002. The United States will remain Canada's most important beef export market, but the Canadian government is aggressively pursuing efforts to reopen other markets to reduce dependency on the United States. Canadian producers face significant challenges due to bans on cattle exports to the United States. Cattle inventories continue to rise, and are expected to exceed 16 million head at the end of 2005, while slaughter capacity remains limited. Canadian packers are operating near full capacity and expected increases in slaughter capacity for 2005 cannot process all of the cattle that would normally be exported to the United States. Canadian producers are proposing ways to deal with the surplus cattle, with the support of the Canadian government, such as increasing slaughter capacity and displacing imports with domestic production. The 2004 Canadian beef export estimate was revised downward 4 percent from the March 2004 estimate because beef exports have been slower than expected.

Key Importers

- **United States:** The 2004 beef import estimate is revised upward 5 percent from the March 2004 estimate. In 2005, U.S. beef imports are forecast to reach nearly 1.7 million tons, though consumption will remain stable, increasing by less than 1 percent in 2005. Import growth partly reflects reduced cow slaughter. Lean trimmings from grass-fed, older cows are mixed with fat trimmings from grain-fed beef for hamburger meat. Supplies of domestic processing beef are expected to be lower as cow inventories have been declining. In addition, the ban on imported Canadian cattle has contributed to a smaller number of cows and cow beef available to U.S. meat packers for processing. Because of lower U.S. production of lean trimmings and stable demand, lean trimmings must be imported from Australia, New Zealand, and Uruguay. U.S. imports from Uruguay have increased due to the higher prices in the U.S. market and resumption of FMD-free status.

- **Russia:** Russian beef imports will remain steady in 2005. Imports from Russia's largest supplier, Ukraine, are forecast to decline due to lower production in Ukraine. The decline in imports from Ukraine is forecast to be offset by increases in imports under the quota system as implementation of the tariff rate quota improves. Russian beef production is expected to decrease 4 percent, limiting supply and increasing prices. Recently, the livestock sector experienced a further reduction in the number of large farms partially due to high feed costs and poor feeding conditions, which is expected to lower calf production in 2004. Due to the higher prices and tighter supplies, consumption is forecast to decrease nearly 3 percent.
- **European Union:** In 2005, beef imports in the 25-member European Union are forecast to be 535,000 tons, up 2 percent over last year. The EU beef trade deficit is forecast at 165,000 tons net imports in 2005 and is expected to continue rising as the result of declining production and a shift in policy to decouple support payments from production. Farmers in the new member states are expected to face challenges to meet new EU environmental, food quality, and animal welfare standards because these countries will not have fully transitioned to the CAP system. The European Union did not ban U.S. beef due to BSE, but hormone-related restrictions continue to limit the amount of U.S. beef that can be exported to the EU.
- **Japan:** In 2005, beef imports are forecast at 611,000 tons, 1 percent higher than expected imports in 2004, but 25 percent lower than in 2003. Japanese beef imports will be constrained as long as bans on U.S. beef remain. Prior to the ban, U.S. beef accounted for one-third of beef consumption in Japan. Domestic production and imports from Australia and New Zealand have increased over previous levels. However, these increases are not enough to meet Japanese demand, resulting in a tight supply situation. Australian grass-fed beef is not fully substitutable with U.S. grain-fed beef and Australia's grain-fed beef production cannot reach levels comparable to the United States due to grain supply constraints and limited feedlot capacity. The 2004 beef import estimate was revised upward because imports from Australia and New Zealand have been sharply up in the first half of the year.
- **Mexico:** In 2005, Mexico is expected to import 320,000 tons of beef, an increase of 19 percent over 2004. Beef production is forecast to decline in 2005 constrained by fewer cattle available for slaughter, as Mexico has experienced drought in the last two years in the north, which encouraged the sale of cattle and reduced cattle inventory. Production also is affected by record numbers of cattle shipped to the United States for feeding purposes. Exports of feeder cattle from northern Mexico to the United States are high due to extremely high feeder cattle prices in the United States. Mexico's drought situation has improved, but fodder reserves and feed prices have not returned to normal levels. Assuming pasture conditions improve, cattle available for slaughter is expected to decline in 2005 as producers retain cattle for herd rebuilding. Lower production in 2005 will improve export opportunities for selected U.S. beef products popular in Mexico. The 2004 import estimate was increased from the March 2004 estimate to reflect Mexico's reopening its borders to U.S. and Canadian beef.
- **Korea:** In 2005, Korean beef imports are anticipated to increase 38 percent over 2004 to 275,000 tons, but remain significantly below import levels prior to the import ban on U.S. beef. In 2004, beef consumption dropped due to BSE concerns; however, demand appears to still be greater than available supply. Consumer demand, higher costs to produce beef

domestically, and tighter world supply of beef have led to higher beef prices in Korea. Korean importers must out-bid Japanese importers for available beef supplies. Facing higher prices, Korean consumers have restrained their beef consumption and looked for alternative substitutes, such as pork, or fish. There are signs that consumer confidence in beef is improving and consumption is expected to increase 11 percent in 2005.

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